

## **RTO WEST: Formation of a Regional Transmission Organization**

**6/08/00**

### **BACKGROUND**

- The Federal Energy Regulatory Commission (FERC) issued Order No. 2000 on December 20, 1999 that required jurisdictional utilities to file by October 15, 2000 a proposal for an RTO or report obstacles to their participation. Four minimum characteristics and eight functions must be appropriately addressed in the proposal for FERC approval. The four characteristics include independence, appropriate scope and regional configuration, operational authority, short term reliability. The eight functions include tariff administration, congestion management, parallel path flow, ancillary services, OASIS and Total Transmission Capability (TTC) and Available Transmission Capability (ATC), Market Monitoring, Planning and Expansion, and Interregional Coordination.
- RTO West, a Washington State non-profit corporation, was formed by eight utilities and the Bonneville Power Administration (the 'RTO Filing Utilities')<sup>1</sup> to fund and develop an RTO proposal for submission to FERC by October 15, 2000. Over time, with amended articles, this entity may become the RTO for the region. (See Attachment A)
- This current RTO West development program draws upon research and regionally acceptable analysis developed during an earlier regional effort to create an Independent Grid Operator (IndeGO). New research and analysis on RTO issues are being developed by RTO West Work Groups and coordinated by the RTO West Project Manager.

### **BENEFITS OF RTO West**

The Federal Energy Regulatory Commission (FERC) finds in its Order 2000 those Regional Transmission Organizations (RTOs) are needed to:

- Address engineering/economic inefficiencies;
- Ensure reliability;
- Confront residual discrimination;
- Accommodate competition and improve market performance;
- Reform transmission pricing; and
- Facilitate lighter handed regulation.

Preliminary analyses of potential benefits of a RTO West have been attempted through various public forums during the last several years. In 1997, the Independent Grid Operator (IndeGO) study team prepared an initial analysis. In 1999, an Ad Hoc benefits group convened to qualitatively assess the benefits of an RTO. Other parties throughout the region also completed a document on the potential benefits of a RTO West.

They each share similarities in approach and identify major areas of expected benefit and cost. These include:

- Power marketing benefits through increased competition. RTO West would accommodate competition and improved market performance through more economically efficient transmission pricing and system usage.
- Removal of pancaked transmission access fees.

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<sup>1</sup> In addition to BPA, the eight utilities include Avista, Idaho Power Company, Montana Power Company, Nevada power Company, PacifiCorp, Portland General Electric Company, Puget Sound Energy, Inc., and Sierra Pacific Power Company.

- Facilitation of more appropriate market signals to encourage optimum economic use of scarce transmission capacity, improve congestion management, and guide regional investments in generation and transmission.
- Improved regional system reliability. These include better management of parallel path flows thus increasing useable capacity as well as maintaining comparable system reliability more efficiently.
- RTO WEST would also realize efficiencies in scheduling, planning, and administration functions. Use of existing control centers and facilities and consolidation of staffed functions would lead to a reduction in infrastructure costs providing additional regional benefit in this category.

A significant challenge in forming an RTO will be to develop an approach that distributes the benefits in a way that minimizes the cost shifts that will occur and looks for appropriate ways to offset these cost shifts over time. This will be a major goal of the RTO WEST rate-setting process.

Although it is too early to say with certainty what the precise benefits will be, the RTO West filing utilities have concluded that there are substantial potential benefits to be gained from creation of RTO West. We are committed to working with the region to make this happen and have developed a process to encourage the active participation of the region's transmission owners as well as concerned Northwest interests in development of the RTO West.

#### **INITIAL PRINCIPLES**

- The RTO Filing Utilities developed a set of principles to guide development of the RTO including, in part, enhanced reliability, sustainable customer benefits, promotion of open bulk markets, economic incentives for reliability and efficiency, mitigation of financial impacts to BPA's bondholders and the U.S. Treasury, preservation of Indian treaty obligations, sustainable financial structure, accommodation of utilities in remote areas, and public involvement. (See Attachment B)
- RTO consensus principles are not exclusionary of the principles of individual filing utilities.

#### **FORM AND STRUCTURE**

- The RTO shall be a single entity that has the characteristics and functions as set forth in Order No. 2000 and shall cover the transmission systems of all transmission owners willing to participate and located within the U.S. portion of the Northwest Power Pool, the Nevada Power transmission facilities of Sierra Pacific Resources, and be able to add other transmission owners within the Western Systems Coordinating Council area, as well as British Columbia ("B.C.") and Alberta. (See map at Attachment C)
- The RTO shall be an independent system operator (ISO) that will not own wires and poles, and shall be governed by an independent board of directors or trustees with a stakeholder advisory board to give recommendations to the board of directors, and shall include at a minimum all transmission facilities needed for bulk power transfers. (See Attachment D)

#### **PUBLIC COLLABORATIVE PROCESS**

- The collaborative process plan includes five elements: a Regional Representatives Group (RRG), RTO West Filing Utilities, Work Groups, RTO Regional Workshops, and the Web Site – [www.rtowest.org](http://www.rtowest.org). (See Attachment E)
- The RRG constitutes broad stakeholder representation including public generators, rural co-ops, transmission dependent utilities/BPA customers, non-BPA transmission dependent utilities, urban/westside transmission dependent utilities, FERC jurisdictional non-investor-owned utilities,

the states, residential customers, direct service industrial customers of BPA, industrial customers, environmental community, renewable resources, independent power producers, marketers, sovereign tribes, Canada, and the RTO West Filing Utilities.

- The role of the RRG is to serve as a high-level collaborative forum for discussion of RTO development issues with a goal of finding consensus on those issues and to provide advice to the RTO West Filing Utilities as they make decisions on their RTO proposal.
- Technical development of the issues and initial effort to achieve consensus occur in the eight Work Groups that include transmission pricing, congestion management, ancillary services, seams, market monitoring, transmission planning, implementation, and legal.
- The RTO West Web site – [www.rtowest.org](http://www.rtowest.org) – is the primary means for communicating information to all interested parties on the development of RTO West. Regional workshops will inform and receive advice from a broad range of interested regional parties on RTO development.
- A consensus issues list has been developed by the RRG to guide the activities of the Work Groups (see Attachment F)

## **COORDINATION WITH OTHER ENTITIES**

- The RTO West Independent System Operator will closely coordinate with the for-profit Independent Transmission Company (“ITC”) that is being formed by six of the RTO Filing Utilities (Avista, Montana Power Company, Portland General Electric, Puget Sound Energy, Inc., Sierra Pacific Power Company, and Nevada Power Company. RTO West has primary planning authority with respect to facilities that impact bulk power. The ITC will have primary planning authority with respect to its local area facilities that do not impact bulk transmission. (See Attachment G)
- Inter-regional coordination with other entities, such as the California ISO and the Western Market Interface Committee (WMIC), is being developed through the RTO West Seams Work Group.
- RTO West is committed to engage British Columbia (“B.C.”) and Alberta as fully as possible in the development of the RTO proposal and has formed a Canada-U.S. Adjunct Committee to the RTO Filing Utilities group to address appropriate integration of B.C. and Alberta facilities into RTO West. The objective of the adjunct committee is to ensure that the impact of RTO development is positive and enhances electricity transmission, reliability, and trade opportunities for both U.S. and Canadian entities.

## **LEGISLATION**

- Legislative needs are being developed by regional counsel. In the current session, useful to address the study ban language in the 1986 Emergency Appropriation Act and certain BPA employment transition issues.

Contact: Jeff Stier, Vice President for National Relations  
Bonneville Power Administration  
Phone: (202) 586-5640; e-mail: [jkstier@bpa.gov](mailto:jkstier@bpa.gov)